

LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2

REPORT ON AUDIT OF COMPONENT
UNIT FINANCIAL STATEMENTS

DECEMBER 31, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6-28-06

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March 31, 2006

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Livingston Parish Gravity Drainage
District #2
Livingston Parish Council
Watson, Louisiana

We have audited the accompanying financial statements of the governmental activities and each major fund of the Livingston Parish Gravity Drainage District #2, "the District" (a component unit of the Livingston Parish Council), as of and for the year ended December 31, 2005, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Livingston Parish Gravity Drainage
District #2

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Livingston Parish Gravity Drainage District #2 as of December 31, 2005, and the budgetary comparison of the General Fund and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated March 31, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Hannu J. Bourgeois, CPA

Livingston Parish Gravity Drainage
District #2
Watson, Louisiana
Management Discussion and Analysis
December 31, 2005

This section of the Livingston Parish Gravity Drainage District #2's (the District) annual financial report presents our discussion and analysis of the District's activities for the year ended December 31, 2005. This document focuses on the current year's activities, resulting changes, and currently known facts. Please read this document in conjunction with the detailed financial statements.

FINANCIAL HIGHLIGHTS

- * Net Assets on December 31, 2005 were \$649,871.
- * The Net Assets of the Governmental Activities showed an increase of \$86,893 or a 15.44% increase in 2005.
- * The total general fund balance at December 31, 2005 was \$317,073. This reflects an actual increase in 2005 to the general fund of \$53,852 or 20.46 %.
- * At the end of 2005, Unreserved General Fund Balance of \$317,073 represents 97.93% of total General Fund Expenditures.
- * The District had a 7.9% increase in the amount of sales tax revenue in 2005, while experiencing a 8.72 % increase in 2004 due to economic growth in the area. The sales tax revenue totaled \$365,965 in 2005 and \$339,077 in 2004 representing 96.91% and 99.40 % of the total revenues in each of the respective years.

OVERVIEW OF FINANCIAL STATEMENTS

The management discussion and analysis are intended to serve as an introduction to the basic financial statements of the District. The District's basic financial statements are comprised of three components: 1) the government-wide financial statements, 2) the fund financial statements, and 3) the notes to the financial statements.

Government-wide financial statements are designed by GASB Statement 34 to change the way in which governmental financial statements are presented. It now provides readers for the first time a concise "entity-wide" Statement of Net Assets and Statement of Activities, seeking to give the user of the financial statements a broad overview of the District's financial position and results of operations in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and accrued but unpaid interest).

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of the District are governmental type funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11 through 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 23 of this report.

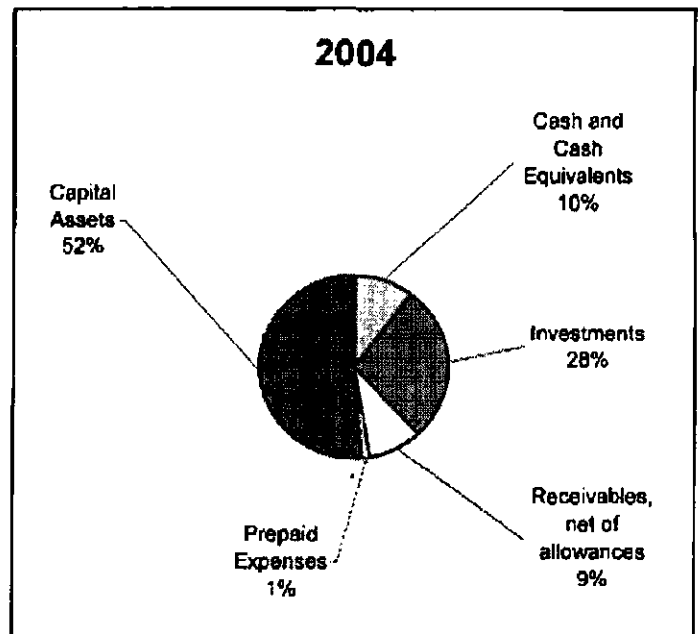
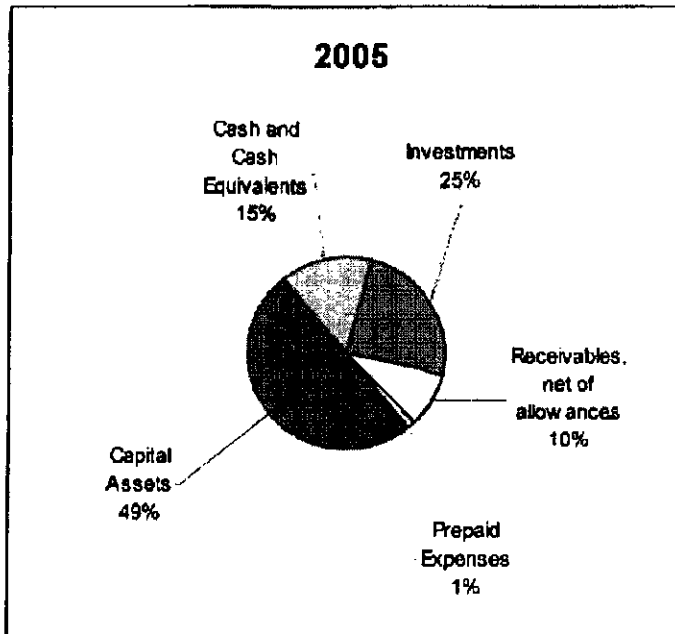
STATEMENT OF NET ASSETS:

The following is a schedule of the District's net assets at December 31, 2005 and 2004. Net assets are calculated by taking the difference between the total assets and total liabilities. The District's assets exceeded its liabilities at the close of 2005 and 2004 by a total of \$649,871 and \$562,978, respectively.

Condensed Statements of Net Assets

	2005	2004	Increases (Decreases)
Cash and Cash Equivalents	\$ 97,163	\$ 58,895	\$ 38,268
Investments	159,972	156,762	3,210
Receivables, net of allowances	62,417	52,980	9,437
Prepaid Expenses	8,732	7,653	1,079
Capital Assets, Net of Accumulated Depreciation	324,066	292,104	31,962
Total Assets	652,350	568,394	83,956
Current Liabilities	2,479	5,416	(2,937)
Total Liabilities	2,479	5,416	(2,937)
Net Assets			
Invested in Capital Assets, Net of Related Debt	324,066	292,104	31,962
Unrestricted	325,805	270,874	54,931
Total Net Assets	\$ 649,871	\$ 562,978	\$ 86,893

The largest portion of District's net assets are reflected on the following charts:



STATEMENT OF ACTIVITIES

The District provides proper maintenance to the existing infrastructure canal and ditch systems for drainage for the citizens of the District. Various improvement projects at certain sites were undertaken as well as the continued ongoing clearing, cleaning, spraying, and general improvement to drainage areas. The extreme growth in the number of homeowners in the District and the new challenges and demands for better drainage of water flow throughout the District kept the focus of management in 2005. The majority of the funding for the District's operation and maintenance is provided by sales taxes on public sales within the boundaries of the District. The District collects a one-half cent sales and use tax within the boundaries of the District and is placed into the general fund. The funds are used to pay for the operation and maintenance of the drainage systems and asset purchases.

Other sources of revenue results from interest earned.

Condensed Statements of Activities

	<u>2005</u>	<u>2004</u>	<u>Increases (Decreases)</u>
Revenues:			
General Revenues	\$ 375,272	\$ 341,123	\$ 34,149
	<u>375,272</u>	<u>341,123</u>	<u>34,149</u>
Expenses:			
Public Works	249,375	249,739	(364)
Depreciation	39,004	23,401	15,603
	<u>288,379</u>	<u>273,140</u>	<u>15,239</u>
Change in Net Assets	\$ <u>86,893</u>	\$ <u>67,983</u>	\$ <u>18,910</u>

REVENUES

- * Sales and use tax revenue increased \$26,888 or 7.9 % in 2005 from the previous year, while interest revenues increased by \$3,425. Sales and use tax revenue increased \$27,175 or 8.71 % in 2004 from the previous year.

EXPENSES

Total expenses in 2005 increased by \$15,239. Actual operating expenses decreased by a net of \$364 and depreciation expense increased by \$15,603. This net increase in operating expense was because of the following:

- * Increases in wages, insurance, small drainage project costs were realized, however decreases in wetland mitigation costs, equipment repairs, and utility expenses from the prior year resulted in a \$364 net operating expense decrease for the year.

BUDGETARY HIGHLIGHTS

- * The final amended budget for revenues in 2005 reflects an increase of \$17,200. This was caused by higher than expected sales tax collections and the sale of the old dump truck replaced during 2005. In 2004, the District had an increase of \$47,500 in its final amended revenue budget.
- * In 2005, the District received \$12,436 greater than the final amended revenue budget or a 3.41% favorable variance and in 2004 revenues were less than the final amended revenue budget by \$6,377 or 1.8% unfavorable variance.
- * In 2005, the final amended budget for expenditures reflects a decrease of \$7,800 as compared to an increase of \$67,200 for the final amended budget for expenditures in 2004. The 2005 final amended budget reflected an increase in capital outlay expenditures of \$41,400, as compared to the original budget. Reductions in 2005 expenditures was budgeted in Wetland Mitigation of \$25,000 and Engineering fees of \$32,500. Capital outlay composed the increase of expenditures in 2004 by \$71,200.
- * Total actual expenditures in 2005 were less than the final amended budget by \$16,416 or 4.8%, while in 2004 total expenditures were less than the final amended budget by \$11,042 or 2.8%.
- * An excess for 2005 was planned for in the amount of \$25,000. Actual excess of revenues over expenditures totaled \$53,852, as compared to the budgeted excess amount of \$25,000.

CAPITAL ASSETS

The District's investment in capital assets as of December 31, 2005 and 2004, amounts to \$324,066 and \$292,104 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery, and equipment. The total increase in the District's investment in capital assets for 2005 was \$31,962 or 10.95 %. The total increase in 2004 was \$111,411 or a 61.65%. Major capital asset events during the 2005 and 2004 included the following:

2005:

- * A pickup-truck and a dump truck were purchased for \$20,091 and \$49,753, respectively.
- * Pump equipment and laser level equipment were purchased for \$3,486.
- * The old dump truck with a basis of \$2,364 was sold in 2005 for \$6,200.
- * Depreciation expense amounted to \$39,004.

2004:

- * Purchase of various equipment items such as an excavator, dozer, and miscellaneous accessories for equipment totaled \$124,582.
- * Building addition for equipment storage totaled \$10,230.
- * Depreciation expense amounted to \$23,401.

FUTURE EXPENSES

The District is committed to previous years' goals of accomplishing proper maintenance to all major canals, ditches, and lateral drainage channels for the new population demand being experienced within the District. The extreme growth in the number of homeowners in the District and the additional drainage impact effects from new development will require additional cleaning of major drainage channels. Focusing attention on canals which are holding surface water or causing delayed drainage will be pursued by the District in the future with the resources available. Increased expenditures for engineering, mitigation fees, employee salaries, general supplies, and capital outlay for related maintenance equipment is estimated in 2006 and beyond. The commitment by the District with the resources available will only improve the standard of living for the District's citizenry. The District has budgeted an amount equal to \$58,000 for Capital Outlay in 2006 as needed to accomplish the goals stated above.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens and creditors with a general overview of the District's finances and reveal the District's accountability for the money received through its operations. If there are any questions about this report or need of additional financial information, contact Administrative Secretary, Randall Smith, Post Office Box 617 Watson, La 70786.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

STATEMENT OF NET ASSETS

DECEMBER 31, 2005
(With Comparative Totals as of December 31, 2004)

ASSETS	Governmental Activities	
	2005	2004
Cash and Cash Equivalents	\$ 97,163	\$ 58,895
Investments	159,972	156,762
Sales Tax Receivable, Net of Collection Fees	62,417	52,980
Prepaid Insurance	8,732	7,653
Capital Assets (Net of Accumulated Depreciation)	<u>324,066</u>	<u>292,104</u>
 Total Assets	 <u><u>\$ 652,350</u></u>	 <u><u>\$ 568,394</u></u>
 LIABILITIES		
Accounts Payable	\$ <u>2,479</u>	\$ <u>5,416</u>
 Total Liabilities	 2,479	 5,416
 NET ASSETS		
Investment in Capital Assets, Net of Related Debt	324,066	292,104
Unrestricted	<u>325,805</u>	<u>270,874</u>
 Total Net Assets	 <u><u>649,871</u></u>	 <u><u>562,978</u></u>
 Total Liabilities and Net Assets	 <u><u>\$ 652,350</u></u>	 <u><u>\$ 568,394</u></u>

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

STATEMENT OF ACTIVITIES

**FOR THE YEAR ENDED DECEMBER 31, 2005
(With Comparative Totals for the Year Ended December 31, 2004)**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Governmental Activities:		
Expenses:		
Public Works	\$ 249,375	\$ 249,739
Depreciation	<u>39,004</u>	<u>23,401</u>
Total Expenses	288,379	273,140
 General Revenues:		
Taxes - Sales	365,965	339,077
Interest Income	5,471	2,046
Gain of Sale of Asset	<u>3,836</u>	<u>-</u>
Total General Revenues	<u>375,272</u>	<u>341,123</u>
Change in Net Assets	86,893	67,983
 Net Assets - Beginning of Year	<u>562,978</u>	<u>494,995</u>
 Net Assets - End of Year	<u>\$ 649,871</u>	<u>\$ 562,978</u>

The accompanying notes constitute an integral part of this statement.

FUND FINANCIAL STATEMENTS

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

BALANCE SHEET - GENERAL FUND

December 31, 2005
(With Comparative Totals as of December 31, 2004)

ASSETS

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 97,163	\$ 58,895
Investments	159,972	156,762
Sales Tax Receivable, Net of Collection Fees	<u>62,417</u>	<u>52,980</u>
Total Assets	<u>\$ 319,552</u>	<u>\$ 268,637</u>

LIABILITIES AND FUND EQUITY

Liabilities:		
Accounts Payable	<u>\$ 2,479</u>	<u>\$ 5,416</u>
Total Liabilities	2,479	5,416
Fund Equity:		
Fund Balance:		
Unreserved - Undesignated	<u>317,073</u>	<u>263,221</u>
Total Fund Equity	<u>317,073</u>	<u>263,221</u>
Total Liabilities and Fund Equity	<u>\$ 319,552</u>	<u>\$ 268,637</u>

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

**RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS**

**DECEMBER 31, 2005
(With Comparative Totals as of December 31, 2004)**

	<u>2005</u>	<u>2004</u>
Fund Balances - Total Governmental Fund	\$ 317,073	\$ 263,221
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
Governmental Capital Assets	414,894	349,014
Less: Accumulated Depreciation	<u>(90,828)</u>	<u>(56,910)</u>
	324,066	292,104
Prepaid Insurance	<u>8,732</u>	<u>7,653</u>
Net Assets of Governmental Activities	\$ <u>649,871</u>	\$ <u>562,978</u>

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GENERAL FUND**

**FOR THE YEAR ENDED DECEMBER 31, 2005
(With Comparative Totals for the Year Ended December 31, 2004)**

	<u>2005</u>	<u>2004</u>
Revenues:		
Sales Tax Collected	\$ 365,965	\$ 339,077
Interest	5,471	2,046
Proceeds from Sale of Asset	6,200	-
Total Revenues	377,636	341,123
Expenditures:		
Public Works:		
Salaries	97,329	83,552
Accounting	8,097	10,792
Engineering Fees	30,607	29,897
Health Insurance	8,834	8,909
Insurance	48,190	39,664
Legal	24	708
Payroll Taxes	8,042	7,268
Repairs and Maintenance	9,591	13,717
Sales Tax Collection Fees	7,306	6,562
Drainage and Small Projects/Supplies	26,843	22,119
Telephone	3,786	3,090
Utilities	1,805	2,068
Wetland Mitigation	-	21,000
	250,454	249,346
Capital Outlay	73,330	134,812
Total Expenditures	323,784	384,158
Excess (Deficiency) of Revenues over (Under) Expenditures	53,852	(43,035)
Fund Balance at Beginning of Year	263,221	306,256
Fund Balance at End of Year	<u>\$ 317,073</u>	<u>\$ 263,221</u>

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED DECEMBER 31, 2005
(With Comparative Totals for the Year Ended December 31, 2004)

	<u>2005</u>	<u>2004</u>
Net Change in Fund Balance - Total Governmental Fund	\$ 53,852	\$ (43,035)
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation in the period:		
Capital Outlays	73,330	134,812
Depreciation Expense	<u>(39,004)</u>	<u>(23,401)</u>
	34,326	111,411
In the Statement of Activities, Only the Gain on the Sale of Capital Assets is Reported. However, in the Governmental Funds, the Proceeds from the Sale Increase Financial Resources. Thus, the Change in Net Assets Differs from the Change in Fund Balance by the Basis of the Capital Assets Sold.		
	(2,364)	-
Change in Prepaid Insurance	<u>1,079</u>	<u>(393)</u>
Change in Net Assets of Governmental Activities	<u>\$ 86,893</u>	<u>\$ 67,983</u>

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues:				
Sales Tax Collected	\$ 345,000	\$ 354,000	\$ 365,965	\$ 11,965
Interest	3,000	5,000	5,471	471
Proceeds from Sale of Asset	-	6,200	6,200	-
Total Revenues	348,000	365,200	377,636	12,436
Expenditures:				
Public Works:				
Salaries	95,000	97,000	97,329	(329)
Accounting	11,000	10,000	8,097	1,903
Engineering Fees	64,700	32,200	30,607	1,593
Health Insurance	10,000	9,000	8,834	166
Insurance	48,000	48,000	48,190	(190)
Legal	1,000	1,000	24	976
Payroll Taxes	9,500	9,500	8,042	1,458
Repairs and Maintenance	5,000	10,000	9,591	409
Sales Tax Collection Fees	7,000	7,000	7,306	(306)
Drainage and Small Projects/Supplies	21,000	23,200	26,843	(3,643)
Telephone	3,000	4,000	3,786	214
Utilities	3,000	3,000	1,805	1,195
Wetland Mitigation	25,000	-	-	-
	303,200	253,900	250,454	3,446
Capital Outlay	44,800	86,300	73,330	12,970
Total Expenditures	348,000	340,200	323,784	16,416
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	25,000	53,852	28,852
Fund Balance at Beginning of Year	263,221	263,221	263,221	-
Fund Balance at End of Year	\$ 263,221	\$ 288,221	\$ 317,073	\$ 28,852

The accompanying notes constitute an integral part of this statement.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2005

(1) Summary of Significant Accounting Policies -

Livingston Parish Gravity Drainage District #2 "the District" is a body corporate created by the Livingston Parish Council, as provided by Louisiana Revised Statutes. The District is governed by a board of five commissioners.

On January 18, 1997, an election was held whereby the voters of Livingston Parish Gravity Drainage District #2 approved a ½% sales and use tax beginning July 1, 1997 for the purpose of "constructing, improving and maintaining drainage facilities within and for the district and purchasing necessary equipment".

The District's taxes are collected by the Livingston Parish School Board and are remitted to the District monthly. The District pays the School board a fee for this service.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 30, 2005, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

A. Financial Reporting Entity

This report includes all funds which are controlled by or dependent on the District's Board of Commissioners. Control by or dependence on the board was determined on the basis of taxing authority, authority to issue debt, election or appointment of governing body, and other general oversight responsibility.

In conformance with Governmental Accounting Standards Board, Statement 14, the District is a component unit of the Livingston Parish Council, the governing body of the parish. The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Council and the general government services provided by that governmental unit.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005

B. Basis of Presentation

Basic Financial Statements - Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. There were no activities of the District categorized as a business-type activity.

In the government-wide Statement of Net Assets, the governmental activity column (a) is presented on a consolidated basis by column, (b) and is reported on a full accrual, economic resource basis.

The government-wide Statement of Activities reports both the gross and net cost of the District's functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflects capital-specific grants. The District does not have any program revenues or operating and capital grants.

The net costs (by function) are normally covered by general revenue (taxes, interest and investment earnings, etc).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Basic Financial Statements - Fund Financial Statements

The financial transactions of the District are reported in an individual fund in the fund financial statements. This fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures. This fund is reported by generic classification within the financial statements.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005

The District uses the following fund type:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental fund of the District:

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. At December 31, 2005, it is the only fund of the District.

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual -

The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Revenues of the District consist principally of sales taxes and interest income. Interest income is recorded when earned. Sales taxes are recorded as revenues when the underlying transaction occurs and meets the availability criteria.

2. Modified Accrual -

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means that the amount of the transaction can be determined and "available" means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund type revenues. Expenditures are recorded when the related fund liability is incurred. Depreciation is not recognized in the Governmental Fund Financial Statements.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005

D. Capital Assets

Capital assets are reported in the government-wide financial statements at historical cost. Additions, improvements or other capital outlays that significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on a straight line basis over the following estimated useful lives:

Buildings and Improvements	20 to 40 years
Equipment	5 to 10 years
Vehicles	5 years

E. Budgetary Practices

The District utilizes the following budgetary practices:

The Chairperson of the Board prepares the annual budget which is based on what is expected to be collected during the fiscal year and is approved by the Board of Commissioners. The adopted budget constitutes the authority of the District to incur liabilities and authorize expenditures from the respective budgeted funds. Additionally, certain expenditures are approved monthly by the Board before payment.

All budget amounts presented in the financial statements have been adjusted for legally authorized revisions of the annual budget during the year.

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Encumbrances

Encumbrances outstanding at year end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. The Governmental Fund's budget is maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year end.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005

The actual results of operations are presented in accordance with GAAP and the Commission's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred. Encumbrances are presented as a reservation for encumbrances on the Balance Sheet of the governmental fund. At December 31, 2005, the District had no outstanding encumbrances.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any debt proceeds used for the acquisition, construction, or improvements of those assets.

I. Reclassifications

Certain amounts from the 2004 financial statements have been reclassified to conform with current year presentation with no effect on the change in net assets.

(2) Cash and Cash Equivalents -

For reporting purposes, cash and cash equivalents include cash, demand deposits, and time certificates of deposit. Under state law the District may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, any other state in the union, or under the laws of the State of Louisiana, of the United States. Further, the District may invest in time deposits or certificates of deposit of state banks organized under Louisiana law and national banks having principal offices in Louisiana.

As confirmed by the fiscal agents, the District had cash and cash equivalents totaling \$105,881 with a carrying amount of \$97,163 at December 31, 2005.

The District also invests all excess funds in certificates of deposits, which have maturity dates greater than 90 days when purchased, and therefore classified as investments for financial reporting.

Cash and cash equivalents and investments are stated at cost, which approximates market. These deposits must be secured under state law by federal deposit insurance or the pledge of securities owned by the bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the bank. The following is a summary of cash and cash equivalents and investments at December 31, 2005:

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005

	<u>Deposits in Bank Accounts</u>		
	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
Deposits in Bank Accounts per Balance Sheet	\$ 97,163	\$ 159,972	\$ 257,135
Bank Balances (Category 3 Only):			
a. Uninsured and Uncollateralized	\$ -	\$ -	\$ -
b. Uninsured and Collateralized with Securities Held by the Pledging Institution	-	-	-
c. Uninsured and Collateralized with Securities Held by the Pledging Institution's Trust Department or Agent, but not in the Entities Name	-	57,135	57,135
Total Category 3 Bank Balances	\$ -	\$ 57,135	\$ 57,135
Total Bank Balances (Regardless of Category)	\$ 105,881	\$ 159,972	\$ 265,853

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2005, \$57,135 of the District's bank balance of \$265,853 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging institutions' trust department or agent, but not in the entities name.

(3) Changes in General Fixed Assets -

Capital asset activity for the year ended December 31, 2005 is as follows:

<u>Governmental Activities</u>	<u>Balance December 31, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2005</u>
Building and Improvements	\$ 67,039	\$ -	\$ -	\$ 67,039
Equipment	231,499	3,486	-	234,985
Vehicles	28,364	69,844	7,450	90,758
Land	22,112	-	-	22,112
Totals	349,014	73,330	7,450	414,894

(CONTINUED)

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005

<u>Governmental Activities</u>	<u>Balance December 31, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2005</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	4,304	1,891	-	6,195
Equipment	41,247	23,760	-	65,007
Vehicles	<u>11,359</u>	<u>13,353</u>	<u>(5,086)</u>	<u>19,626</u>
Total Accumulated Depreciation	<u>56,910</u>	<u>39,004</u>	<u>(5,086)</u>	<u>90,828</u>
Capital Assets, Net	<u>\$292,104</u>	<u>\$ 34,326</u>	<u>\$ 2,364</u>	<u>\$ 324,066</u>

Depreciation expense for the year ended December 31, 2005 is \$39,004, as reported in the Statement of Activities.

(4) Long-Term Debt -

The Livingston Parish Gravity Drainage District #2 has no long-term debt transactions for the year ended December 31, 2005.

(5) Leases -

The District has no outstanding capital or operating leases at December 31, 2005.

(6) Litigation -

At December 31, 2005, there is no litigation pending against the District.

(7) Compensated Absences, Pension Plan, and Other Postemployment Benefits -

At December 31, 2005, the District has no plan or provision for compensated absences, pension plan or other post employment benefits.

**LIVINGSTON PARISH GRAVITY DRAINAGE
DISTRICT #2**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005

(8) Per Diem Paid Board Members -

Only one of the Board of Commissioners receives a monthly per diem of \$60 per month for keeping and maintaining the official board minutes. All Board Members serve five year terms. Per diems paid to the board members for 2005 were as follows:

Charles Kemp	\$ 720
Beverly Thames	-
Gene Baker	-
Billy Tadlock	-
Murray Morgan	-
Jimmy Davis	<u>-</u>
	<u>\$ 720</u>

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT
OF THE COMPONENT UNIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS



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March 31, 2006

Board of Commissioners
Livingston Parish Gravity Drainage
District #2
Livingston Parish Council
Watson, Louisiana

We have audited the financial statements of the governmental activities and each major fund of the Livingston Parish Gravity Drainage District #2, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of management, the Office of the Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specific parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannu J. Bourgeois, CPA